



Millennium Challenge Corporation

Reducing Poverty Through Growth

February 6, 2006

CONGRESSIONAL NOTIFICATION

Pursuant to the requirements of Section 515 of Pub. L. 108-447, we wish to notify Congress of the Millennium Challenge Corporation's ("MCC") intent to enter into a Millennium Challenge Compact with the Government of the Republic of Benin ("GOB"), through which MCC will grant up to Three Hundred and Seven Million Two Hundred Ninety-Eight Thousand and Forty U.S. Dollars (USD \$307,298,040) of FY 2005 Millennium Challenge Account ("MCA") funds. Of this amount, MCC intends to obligate pursuant to the authority of Section 605 of the Millennium Challenge Act of 2003 (the "Act") up to Three Hundred and Five Million Seven Hundred Sixty One Thousand and Fifty US Dollars (USD\$305,761,550) at the time the agreement enters into force. These funds will be disbursed in tranches over the course of the Compact's term upon satisfaction or waiver of relevant conditions precedent. In order to accelerate implementation of the Compact, MCC will obligate the remaining One Million Five Hundred Thirty Six Thousand Four Hundred and Ninety U.S. Dollars (USD \$1,536,490) of the total amount ("Compact Implementation Funding") at the time of signing of the Compact, pursuant to the authority of Section 609(g) of the Act.

This five-year Compact will implement a program, proposed by the GOB, which will address Benin's key constraints to economic growth and poverty reduction, by supporting improvements in physical and institutional infrastructures in four critical sectors. The program is comprised of four proposed projects: Access to Land Tenure, Access to Financial Services, Access to Justice, and Access to Markets.

The Compact Implementation Funding is included in the total amount of MCA funds under the Compact and will not represent an incremental increase in the overall MCA funding commitment to the Government of Benin. Specifically, these funds will go to support:

- 1) Environmental, economic and engineering pre-feasibility studies related to the Port of Cotonou and the "Access to Markets Project,"
- 2) Monitoring and Evaluation survey activities related to baseline data collection,
- 3) Fiscal and procurement administration activities, and
- 4) Administrative costs of MCA-Benin (or other mutually acceptable entity), such as reasonable and normal staff salaries, office rent, computers, and information technology equipment.

Compact Implementation Funding shall be subject to (A) the limitations on the use or treatment of MCC Funding set forth in Section 2.3 of the Compact attached hereto, as if such provision were in full force and effect, and (B) any other requirements for, and limitations on the use of, such Compact Implementation Funding as may be required by MCC in writing. Any obligation to provide Compact Implementation Funding will expire upon the expiration or termination of the Compact or five (5) years from the signature of the Compact, whichever occurs sooner.

Pursuant to Section 610(a) of the Millennium Challenge Act of 2003 (Section 610(a) Pub. L. 108-199, Division D) (the "Act"), the appropriate Congressional committees were notified of MCC's intent to commence negotiations with the GOB on July 22, 2005. These negotiations have resulted in a mutually agreeable program described herein, which will be formalized in a Compact on substantially the terms and substantially the form of the text of the Compact that is being forwarded with this notification. A summary of key elements of the Compact is set forth in the accompanying "Executive Summary." MCC will provide the final agreed text of the Compact, along with a detailed summary of the text, to the appropriate Congressional committees no later than 10 days after the execution of the Compact, as provided in Section 610(b) of the Act.

**Millennium Challenge Compact between
the United States of America,
Acting through the Millennium Challenge Corporation, and
the Government of the Republic of Benin**

Executive Summary

Situated in West Africa, between Nigeria and Togo in the Gulf of Guinea, Benin is a small and very poor country with a population of nearly 7 million, a third of which live in poverty. Progress in development is attributed to reforms initiated in the early 1990s as Benin transitioned from a Marxist-Leninist state towards a pluralistic democracy and market economy. Despite growth rates averaging 5% per year in the past decade, rapid population growth has offset much of these gains and poverty remains widespread. Per capita income in Benin remains below the sub-Saharan African average and rural poverty has increased in recent years. Benin's economy is narrowly dependent on cotton production, subsistence agriculture and regional trade through the Port of Cotonou. The key impediments to sustainable economic growth and poverty reduction are a poor investment climate and a lack of dynamic private sector activity. These are hindered by land insecurity, lack of access to capital, an inefficient judicial system, and an increasingly uncompetitive Port of Cotonou.

The proposed Compact is a five year program comprised of a series of strategic investments designed to improve core physical and institutional infrastructure and increase investment and private sector activity. The Program comprises four proposed Projects: "Access to Land," "Access to Financial Services," "Access to Justice," and "Access to Markets." The Program is expected to impact up to 5 million beneficiaries and lift an estimated 250,000 Beninese out of poverty by the year 2015. Specifically, the proposed Land Project is expected to assist an estimated 115,000 rural and urban households with more secure and useful tenure; contribute to a 50% reduction in court cases related to land disputes; and result in a 10% increase in investment in rural land and a 20% increase in investment in urban property. The proposed Financial Services Project is expected to expand financial services to micro, small and medium-sized enterprises (MSME) by nearly \$60 million (a multiple of three times the Project's funding), thereby increasing MSME value added and incomes of the poor that own, are employed by, or do business with those enterprises. The proposed Justice Project is anticipated to benefit approximately 2.38 million Beninese by bringing courts closer to rural populations and making them more responsive and effective. Finally, a more efficient Port will contribute to importer and exporter value-added by reducing transportation costs and increasing the level of Port operations. It is likely that the anticipated reduction in shipping costs will be passed on to wholesalers and traders, and ultimately be reflected in lower consumer prices. Additional added value in jobs from fish processing and Port operations are expected from improvements in several infrastructure components.

The GOB will create the accountable entity, an independent legal entity (MCA-Benin), which will be comprised of an eleven voting member Board of Directors and a Program management unit. The Board of Directors will make certain strategic decisions and recommendations, provide oversight of the Program implementation and hold responsibility for ensuring the success or failure of the Program. The Program management unit will be responsible for the implementation of the Program, including contracting, program management, financial management, and coordination of monitoring and evaluation. In addition, GOB has proposed a nine-member Advisory Council. The Advisory Council will provide recommendations and feedback to the Board of Directors.

The fiscal accountability mechanisms, governance structure, and audit and review requirements (including monitoring and evaluation) set forth in the Compact and to be further detailed in ancillary agreements and documents, will ensure that appropriate oversight and accountability measures are built into the implementation of the program. In accordance with its Congressional mandate, MCC will only disburse funds consistent with the limitations Congress has placed on the use and treatment of MCA assistance. These limitations are expressly set forth in the body of the Compact. MCC has also retained, through the Compact, approval rights over key agreements and implementation actions, e.g., selection of key service providers (such as the fiscal agent and auditor), certain payments, certain procurements, key personnel decisions for MCA-Benin, detailed financial plans, and the monitoring and evaluation plan.

Where To Find Key Provisions

Compact:

Article I: Purpose and Objectives; Term

Article II: Funding and Disbursement Provisions; Government Resources and Contributions; Limitations on the Use or Treatment of MCC Funding; Refunds

Article III: Implementation (including procurement, audit, reporting); Government Responsibilities and Assurances

Article IV: Deliveries and Conditions Precedent to Entry in Force; Conditions Precedent to MCC Disbursement and Re-Disbursement

Article V: Final Clauses, including Termination and Suspension

Exhibit A: Definitions

Exhibit B: List of Certain Supplemental Agreements

Schedule 2.1(a)(iii): Description of Compact Implementation Funding

Annex I: Descriptions of the implementation framework and the program elements, which include Land Project (Schedule 1); Financial Services Project (Schedule 2); Justice Project (Schedule 3); Markets Project (Schedule 4)

Annex II: Summary of Multi-Year Financial Plan

Annex III: Description of the Monitoring and Evaluation Plan